BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Order Instituting Rulemaking on the Commission's Own Motion to Update and Revise the Uniform Systems of Accounts for the Class A Water Utilities and for the Class B, C and D Water Utilities.	R.15-11-014 (Filed November 19, 2015)

REPLY COMMENTS OF THE OFFICE OF RATEPAYER ADVOCATES TO THE OPENING COMMENTS OF THE CALIFORNIA WATER ASSOCIATION

I. INTRODUCTION

Pursuant to the July 14, 2016 *Administrative Law Judge's Ruling Introducing a Draft Workshop Report and Inviting Comments* ("ALJ's July 14 Ruling"), the Office of Ratepayer Advocates ("ORA") hereby files its Reply Comments in response to the Opening Comments of the California Water Association ("CWA") filed on July 29, 2016 ("CWA Opening Comments").

These comments are timely filed pursuant to the deadline set forth in the ALJ's July 14 Ruling.

II. PROCEDURAL BACKGROUND

On May 13, 2016, the Administrative Law Judge in this proceeding issued *Ruling Setting and Noticing a Workshop on Recycled Water and Seeking Additional Comments on Proposed Changes to Water Utilities Uniform System of Accounts* ("ALJ's May 13 Ruling"). In addition to setting a workshop to discuss the recycled water issue, the May 13 Ruling allowed parties to file Opening and Reply Comments on June 3 and June 17, 2016, respectively, on additional issues raised by CWA, including an update to plant items.

Pursuant to this ruling, CWA filed Opening Comments on June 3 with its recommended updates to plant items. In reply to these Opening Comments, ORA filed Reply Comments on June 17, 2016 addressing CWA's problematic recommendation to add "Computer Software" expenses to Plant Account 372.

Following the May 13 Ruling, the ALJ also issued the July 14 Ruling, which invited parties to file comments on the recycled water Workshop Report and the issue of whether recycled water should be separately recorded for accounting purposes. Pursuant to the ALJ's directive, ORA filed Opening Comments on the workshop report and the recycled water issue on July 29, and now files its Reply Comments here.

III. DISCUSSION

A. CWA Attempts to Misconstrue the Procedural Schedule and Incorrectly Implies that ORA Provided Improper Comments in this Rulemaking.

In its July 29 Opening Comments, CWA states that it "has not had the opportunity to respond to comments filed by ORA on June 17, 2016,"[1] and further asserts that "The title of ORA's [June 17, 2016] comments is a misnomer since it appears that ORA is not replying to CWA's 'opening' comments, which were filed on April 8, 2016, but instead to its 'additional' comments, filed June 3, 2016."[2] CWA then goes on to respond to ORA's June 17, 2016 Reply Comments regarding the proper ratemaking treatment of computer software, despite the ALJ's July 14 Ruling that the current round of comments are to focus on the Workshop Report and the issue of whether recycled water should be treated separately for accounting purposes.[3]

CWA's statement seems to suggest that the content in ORA's June 17, 2016 Reply Comments is improper. In fact, the ALJ's May 13 Ruling specifically provided that parties were permitted to file additional comments in this proceeding

[1] CWA Opening Comments at p. 4.

[2] CWA Opening Comments at p. 4, footnote 6.

[3] *Compare* CWA Opening Comments at pp. 4-5 with *Administrative Law Judge's Ruling Introducing a Draft Workshop Report and Inviting Comments* (July 14, 2016) at p. 1.

on specific changes that should be made to the utilities' plant items in the Uniform System of Accounts ("USOA").[4]

Pursuant to this directive, CWA filed Opening Comments in which it provided recommended revisions to plant items. In Reply, ORA filed its June 17, 2016 Reply Comments addressing the issues with CWA's suggested addition of "Computer Software" expenses to Plant Account 372.[5]

Thus, CWA's contention that ORA mislabeled its June 17 Opening Comments and its suggestion that ORA improperly replied to CWA's June 3 Opening Comments[6] make no sense given the procedural record.

The ALJ's May 13 Ruling specifically allowed parties to file opening and reply comments on any changes that should be made to the utilities plant items, and ORA's June 17, 2016 comments were in direct reply to CWA's June 3, 2016 comments addressing that issue. On June 17, 2016, no party should have been responding to CWA's April 8, 2016 Opening Comments as this is not what was directed by or allowed for in the ALJ's May 13 Ruling.

Likewise, CWA's comment that it "has not had the opportunity to respond to comments filed by ORA on June 17, 2016,"[7] makes little sense given that parties are not provided additional opportunities to respond to reply comments.

CWA's comments suggesting that ORA somehow filed improper comments is not supported by the record, is entirely incorrect, and should be completely disregarded by the Commission.

B. The Commission Should Afford no Weight to CWA's "Additional" Comments.

To make CWA's Opening Comments more perplexing, it is actually CWA that has filed improper additional comments that were not permitted in the ALJ's

[4] ALJ's May 13 Ruling at pp. 4-5, Paragraph 3.

[5] ORA June 17, 2016 Reply Comments.

[6] CWA Opening Comments at p. 4, footnote 6.

[7] CWA Opening Comments at p. 4.

Ruling. CWA states that "it has identified three additional issues that should be considered as part of the USOA update process: (a) regulatory assets and liabilities, (b) meter removal and (c) deferred taxes," and goes on to provide comments on each of these issues.[8]

The ALJ's July 14 Ruling specifically stated that comments were to focus on the Workshop Report and the issue of whether recycled water should be treated separately for accounting purposes. The ALJ's July 14 Ruling in no way provided an opportunity for parties to raise additional issues.

The ALJ has previously noted similar behavior on CWA's part in this proceeding. The ALJ's May 13 Ruling states that, with regard to additional plant issues raised by CWA:

> The above three CWA issues could have easily been addressed in the filed comment and reply comment process established by the OIR. Nevertheless, we will allow a second round of comments and reply comments for parties to comment on these three issues [the aforementioned June 3, 2016 and June 17, 2016 round of comments]."[9]

Similarly, the ALJ's May 13 Ruling setting the June 20, 2016 workshop specifically informed parties that "Recycled water is the only issue to be discussed and addressed at this workshop.[10]

CWA could have, and should have, raised the additional issues it discusses in its July 29 Opening Comments at an earlier date. These additional comments are not permitted pursuant to the ALJ's June 14 Ruling, which specifically instructed parties to address whether recycled water should be treated separately for accounting purposes. The Commission should disregard CWA's additional comments, which are entirely unrelated to the recycled water issue, and afford these additional comments no weight.

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[8] CWA Opening Comments at p. 4.

[9] ALJ May 13 Ruling at p. 3.

[10] ALJ May 13 Ruling at p. 1.

C. ORA Has Raised Multiple Issues with Regard to the Current Practice of Commingling Recycled Water Accounting.

CWA states that none of the parties at the workshop "were able to identify any current issues or problems that would be solved by separate accounting for recycled water."[11] This is yet another inaccurate description of ORA's participation in this proceeding. CWA was instructed to "present at the beginning of the Workshop . . . An introductory description of the types and process of recycled water activities being and expected to being undertaken by the Class A Water Utilities . . ."[12] The ALJ's May 13 Ruling further explained that the purpose of the workshop was to "obtain[] a better understanding of the Class A Water Utilities recycled water activities."[13]

As such, ORA used the workshop time to ask CWA questions about the recycled water issue. ORA then followed up with its own additional research, including research into the California Water Recycling Act that CWA discussed at the workshop. As discussed in its Opening Comments, ORA has raised multiple issues and problems that would be solved by separate accounting.

CWA misconstrues ORA's statements at the workshop in stating that "ORA stated that accounting for recycled water simply was not an issue for them . . ."[14] Thus far, the Commission has not required, and therefore ORA has not reviewed, separate accounting for recycled water. However, a review of the practice in other states, as discussed in ORA's comments, demonstrates that separate accounting may be a beneficial and even necessary practice.

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[11] CWA Opening Comments at p. 2.

[12] ALJ May 13 Ruling at p. 1.

[13] ALJ May 13 Ruling at p. 1.

[14] CWA Opening Comments at p. 2.

D. The Commission Should Deny CWA's Request to Capture "Implementation Costs" in a Memorandum Account.

In its Opening Comments, CWA also requested if the proposed changes to the accounting for recycled water are required, "that the utilities be able to track implementation costs in a memorandum accounts for future recovery."[15] CWA further explains the reasoning underlying its request: "Given the infrequency with which the USOA is updated, it is unlikely that such costs were forecasted in general rate case applications."[16] The Commission should deny this request because Class A Water Utility rates already track the dollar amounts necessary to implement the proposed changes.

CWA asserts that "Requiring separate accounting for recycled water would likely require utilities to remap their financial systems and general ledgers and could entail additional changes to current systems for reporting and compliance, all at considerable cost."[17] However, Class A Water utility rates already include amounts for the salaries and benefits of Regulatory and Information Technology (IT) staff that would implement the proposed changes. In addition, Class A Water utility rates already include forecasted amounts for Outside Services that would cover any additional consulting expenses, if necessary.

In the unlikely event that Outside Service expenses are incurred that exceed the amounts in rates, the utility's next GRC's Outside Services forecasts will almost certainly be based on recorded amounts and the utility will realize an increase in that GRC's Test Year expenses.

Another factor to consider is that many Class A Water Utilities have recently requested and received approval for millions of dollars in IT upgrades. In one example, in D.12-06-016, the Commission approved $14 million for California American Water Company to replace its accounting system with the SAP Enterprise Resource Planning

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[15] CWA Opening Comments at p. 4. Footnote 5.

[16] Ibid.

[17] CWA Opening Comments at p. 4.

(ERP) system.[18] The amounts invested by Class A Water utilities on recent IT upgrades should at least provide the flexibility to make the proposed minor accounting changes for recycled water without ratepayers incurring additional costs. Because rates for Class A Water Utilities already include amounts for Regulatory and IT personnel, Outside Service consulting fees, and IT infrastructure upgrades, the Commission should deny CWA's request to track the implementation costs related to the proposed accounting changes for recycled water in a memorandum account.

Respectfully submitted,

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[18] D.12-06-016, p. 64.